

Echo Energy Canada Inc.

Management's Discussion and Analysis of Financial Statements For the nine months ended September 30, 2008

November 13, 2008

Forward-Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Echo to be materially different from those expressed or implied by such forward-looking information, including risks associated with exploration and development such as, future commodity prices, market conditions, changes in foreign exchange and interest rates, actual results of current exploration activities, government regulation, political or economic developments, environmental risks, permitting timelines, capital expenditures, operating or technical difficulties in connection with development activities, employee relations, the speculative nature of gas exploration and development, including the risks of diminishing quantities of reserves; changes in project parameters as plans continue to be refined and results of ongoing litigation, as well as those risk factors discussed in this MD&A for the year ended December 31, 2007, available on www.sedar.com. Although Echo has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Echo does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Overall Performance

Echo Energy Canada Inc. (the "Company") is in the business of exploring for, developing and operating natural gas and hydro-carbon properties.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 1490564 Ontario Inc. and Pecho Pipelines Inc. ("Pecho"). Its investment in Ontex Resources Limited ("Ontex") is accounted for under the equity method and its investment in Echo Power Generation Inc. ("EPG") is accounted for under the cost method. The Company and Echo Energy Inc. ("EEI") were amalgamated on April 1, 2006 and continue as Echo Energy Canada Inc. All figures are in Canadian dollars.

The Company recorded a net loss of \$481,730 for the nine months ended September 30, 2008 compared to a net loss of \$87,968 for the same period in 2007. An operating loss before depreciation, depletion and amortization of \$194,316 for the nine months ended September 30, 2008 (2007 earnings of \$351,965) were offset by depreciation, depletion and amortization charges of \$510,919 (2007 - \$406,044). The company also recorded equity losses in investments of \$51,195 (2007 - \$10,524). The results for the period ended September 30, 2008 were significantly impacted by legal fees in the amount of \$966,326 primarily due to court applications for an injunction regarding a private placement and allegations of oppressive action as discussed below and in the notes to the financial statements. Cumulative exploration expenses as at

September 30, 2008 were \$44,405,222 including expenditures of \$377,618 offset by \$429,609 of depletion for the period. Depletion rates for 2008 are based on the independent engineer's re-evaluation of forecasted flow rates based on actual performance for the year 2007.

Selected Annual Information

	December 31, 2007	December 31, 2006	December 31, 2005
	\$	\$	\$
Total revenues	2,189,003	2,486,313	4,079,318
Net income (loss)	192,385	(1,350,262)	436,085
Basic income (loss) per share	0.004	(0.026)	0.01
Diluted income (loss) per share	0.004	(0.026)	0.01
Total assets	53,377,726	52,176,548	53,750,698
Total long term financial liabilities	6,200,000	6,200,000	6,200,000

The above selected information and the summary of quarterly results presented below have been prepared by management, in Canadian currency, in accordance with Canadian generally accepted accounting principles and following the same accounting principles and methods of computation as the audited consolidated financial statements for the fiscal year ended December 31, 2007 unless otherwise disclosed. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. This discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto for the nine months ended September 30, 2008.

Results of Operations

A comparative summary of the Company's total revenue and total expense for the nine months ended September 30, 2008 is as follows:

	2008	2007	Change	Change
	\$	\$	\$	%
Gross sales	2,276,120	1,850,426	425,694	23.0
Less Royalties	(145,569)	(116,043)	(29,526)	25.4
Interest	14,062	7,472	6,590	88.2
Total income	2,144,613	1,741,855	402,758	23.1
	2008	2007	Change	Change
	\$	\$	\$	%
Transportation	157,807	150,054	7,753	5.2
Operations	339,714	282,142	57,572	20.4
Depreciation, depletion and amortization	510,919	406,044	104,875	25.8
Accretion	7,050	—	7,050	-
Net change in inventory	(6,086)	50,043	(56,129)	
Management and consulting services	403,988	369,916	34,072	9.2
Legal and audit fees	1,010,328	89,836	920,492	
General and administration	161,554	135,469	26,085	19.3
Interest on long-term debt	260,360	305,583	(45,223)	(14.8)
Interest and bank charges	4,214	6,847	(2,633)	(38.5)
Total expenses	2,849,848	1,795,934	1,053,914	58.7

The Company reflected gross sales of natural gas in the amount of \$2,276,120 for the nine months ended September 30, 2008, offset by royalties of \$145,569. The 23% sales increase from \$1,850,426 for 2007 was a result of higher gas prices that more than off-set a 3% reduction in unit sales with 216,802 Mcf of gas sold in 2008 (2007 – 223,470 Mcf). Production exceeded sales and as a result, inventory at September 30, 2008 increased by 1,484 Mcf from the December 31, 2007 balance of 11,471 Mcf. Interest income increased 88% from \$7,472 for the nine months ended September 30, 2007 to \$14,062 for 2008 due to higher average cash balances.

Overall transportation and operation expenses directly related to gas sales increased 15% for the nine months ended September 30, 2008 compared to the same period in 2007. Transportation cost were up 5% above the prior year \$157,807 [2007 – \$150,054]. Operating cost of \$339,714 [2007 – \$282,142] were up 20% from the prior year reflecting an increase in field time for the period. Depletion rates were adjusted as at December 31, 2007 based on the engineer’s re-evaluation of gas reserves resulting in charges of \$429,609 for depletion of resource properties and amortization of \$73,514 for the pipeline systems for 2008, compared to \$361,364 and \$44,679, respectively, for the same period in 2007 on lower unit sales. Interest expense in the amount of \$260,360 [2007 – 305,583] has decreased from the prior year due to lower interest rates and a reduction in the line of credit.

General and administrative expenses increased 19% from \$135,469 for the nine months ended September 30, 2007 to \$161,554 for 2008 due primarily to costs incurred in the solicitation of proxies in advance of the annual meeting. Management and consulting fees increased by 9% from \$369,916 for the nine months ended September 30, 2007 to \$403,988 for 2008 due primarily to a one-time adjustment for amounts owing under a management contract. Legal fees increased by \$920,492 from 2007 to 2008 due primarily to court applications filed in a dispute arising from the November 2007 private placement approval and for preparation and attendance at the Annual and Special Meeting.

During the nine months ended September 30, 2008, the Company recorded its share of losses in Ontex of \$51,195 [2007 - \$10,524]. Operating losses for the nine months ended September 30, 2008 for Ontex were increased by share option compensation expenses for directors and consultants, annual meeting costs and fees incurred on option and rights plans. Ontex’s common shares are traded on the Toronto Stock Exchange. Ontex is currently focused on a drill program for its mineral properties intended to expand its global indicated and inferred mineral resource.

Summary of Quarterly Results

	For the three month period ended,							
	Sept 30, 2008	June 30, 2008	March 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007	March 31, 2007	Dec 31, 2006
Revenues	803,346	842,037	630,737	468,006	528,088	733,223	589,115	648,949
Income from continuing operations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net income (loss)	93,599	(235,189)	(340,140)	280,353	(39,527)	(10,156)	(38,285)	(1,190,567)
Net income per share - basic (loss)	.002	(0.004)	(0.006)	0.005	(0.001)	(0.000)	(0.001)	(0.023)
Net income per share - fully diluted (loss)	.002	(0.004)	(0.006)	0.005	(0.001)	(0.000)	(0.001)	(0.023)

In the third quarter of 2006, the Company responded to a sales rate increase in August by selling gas accumulated in storage resulting in increased sales of 88,780 Mcf and net earnings for the quarter.

In the fourth quarter of 2006, the net loss was impacted by recognition of a write-down in the investment in EPG of \$961,993 and by an adjustment to depletion rates for 2006 arising from a re-evaluation of flow rates from wells and resulting reserve estimates.

In the first quarter of 2007, the decrease in the loss is primarily due to decreased expenditures and a nil share of losses in EPG partially offset by reduced gas sales rates on 67,557 Mcf and increased depreciation, depletion and amortization charges.

In the second quarter of 2007, improved gas sales of 81,007 Mcf were offset by an exchange loss on foreign currency.

In the third quarter of 2007, reduced gas sales of 74,906 Mcf and continued foreign currency loss led to an increase in the net loss.

In the fourth quarter of 2007, reduced gas sales of 64,013 Mcf and expenditures on legal fees led to an increase in the net loss offset by a \$617,900 future income tax recovery reflecting the impact of enacted rates on the previously recorded liability arising from a 2004 business combination.

In the first quarter of 2008, the increase in the loss is primarily due to legal fees incurred for court applications filed in a dispute arising from the November 2007 private placement approval and preparation for the Annual and Special Meeting partially offset by increased gas sales of 71,688 Mcf.

In the second quarter of 2008, improved gas sales rates on 75,761 Mcf were offset by further legal fees incurred for court applications filed in a dispute arising from the November 2007 private placement approval and preparation and attendance at the Annual and Special Meeting.

The third quarter of 2008 had positive operating results with lower gas sales units more than off-set by a 60% rate increase from the prior year.

For more detailed information, please refer to the previous public filings of the Company on SEDAR at www.sedar.com.

Liquidity

[a] Shareholder Financing

On October 28, 2004 the Company granted a total of 4,700,000 stock options to certain of its directors, officers and employees exercisable at a price of \$2.00 per share prior to October 28, 2007. None of the options were exercised and have consequently expired.

On December 1, 2006, 265,000 options, exercisable at any time from November 30, 2007 to the expiry date of November 30, 2008 at a price of \$0.50, were granted to the Company's investor relations firm under an investor relations agreement with vesting of one-quarter of the options on each of February 28, 2007, May 31, 2007, August 31, 2007 and November 30, 2007. The fair values of the option compensation vested during the year were estimated at \$15,340 and recognized as an expense with offsetting credit to Contributed Surplus.

A total of 7,785,000 shares remain available for issuance under the stock option plan.

In November 2007, the Company approved a \$2,000,000 private placement which was completed in March 2008 with the issuance of 6,000,000 common shares, at an issue price of \$0.25 per common share, and 1,428,571 flow-through common shares, at an issue price of \$0.35 per flow-through common share. Completion of the private placement was delayed by an application for an injunction filed by three shareholders of Echo Energy, namely Salvatore Fuda, Challenge Gas Holding AB ("Challenge"), and Exclusive Asset Management Inc. ("Exclusive") against Echo Energy and five of its directors, namely Gary

Conn, Michael Hunter, Robert Moore, David Johnstone, and Salvatore Pacifico (the “Fuda Action”). The court did not enjoin the Company from proceeding with a private placement that allowed Mr. Fuda to buy all or 52% of the \$2,000,000 private placement. 5,000,000 common shares and 857,143 flow-through common shares were issued to Mr. Fuda, the Chairman of the Company, with the balance issued to private investors.

[b] Bank Financing

In February 2008, the Company’s approved revolving credit facility was decreased from \$6,200,000 to \$5,200,000 based on the bank’s assessment of its borrowing base. In June 2008 the principal reduction was limited to \$500,000 by the bank pending further analysis and negotiation. In September 2008, a new credit facility agreement was established. . This is a demand loan that requires monthly principal payments of \$50,000. Principal payments totaling \$150,000 were made in the third quarter of 2008.

Current and long-term portions are as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Prime plus .5% demand credit facility	5,550,000	6,200,000
Less current portion	5,550,000	1,260,000
Amounts due after one year	-	4,940,000

Although the banking agreement only calls for principal payments of \$600,000 in the next year, it is a demand facility and therefore the entire amount has been classified as current debt. Interest is charged at a rate of prime plus .5% and paid monthly. The facility is secured by an \$8,000,000 debenture representing a first floating charge on all assets and undertakings of the Company and a fixed charge on gas properties.

[c] Working Capital

As at September 30, 2008, the Company had a working capital deficit of \$4,838,846 compared to a December 31, 2007 working capital deficiency of \$512,256. The change is largely the result of classifying our bank debt as current under our new demand loan banking facility, although we expect that only \$600,000 of principal payments will be required in the coming year. The Company reasonably expects to fund 2008 operations through cash flow from deliveries of gas subject to resolution of legal disputes and to production rates being sustained and market prices of gas warranting sale of gas produced.

[d] Contingencies and Commitments

From time to time, the Company is the subject of litigation arising out of the Company’s operations. Damages claimed under such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact the Company’s financial condition or results of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on the Company’s financial position.

The Company is a party, as applicant and as respondent, to court applications alleging oppressive actions. The Company has assessed that the outcome of the actions is not determinable and, further, that the amount of contingent recovery or loss, if any, cannot be reasonably estimated.

The Company has contractual obligations under management consulting agreements, expiring between September 15, 2011 and September 15, 2013, to compensate its Chairman and President for management services provided by them in the aggregate amount of approximately \$465,000 for 2008, escalating at the rate of ten percent per annum.

The Company is committed to spending a further \$247,298 on exploration costs during 2008 and 2009 as part of the flow-through funding agreements that were completed during calendar 2008.

The Company has also entered into a number of exclusive lease rights with land owners. These leases contemplate a minimum or maximum amount payable in the form of rent per acre of land under lease and royalties on revenues generated on gas, oil and minerals extracted from the land. While the leases grant rights to the Company over a specified term, the Company may at any time release all or part of its interest and thereby terminate its obligations. Payments totaling approximately \$220,000 are expected to be paid under existing leases during 2008.

Capital Resources

[a] Oil and Gas Leases

As at September 30, 2008, the Company's net cumulative expenditures on oil and gas exploration were \$9,522,831 plus \$34,882,391 of value acquired on the business combination between Pifher Resources Inc. (the former name of the Company) and EEI in 2004. The Company's oil and gas properties, located in Southwestern Ontario, include over 55,000 acres of leased lands located in Houghton and Middleton Townships in Norfolk County and Bayham and Malahide Townships in Elgin County. The Company has completed drilling of 70 gas wells and has purchased 2 existing wells of which 61 are on-stream and producing. The Company expects to complete five non-producing wells and drill up to 60 infill development wells and up to 80 additional wells to completely test additional probable acreage.

On March 20, 2007 the Company announced that it had secured 3 new drilling licenses to target the potentially lucrative Thorold Grimsby Zone. On June 20, 2007 and September 5, 2007, the Company announced successful flow testing of a total of three Thorold/Grimsby wells drilled during the year showing encouraging flow rate potential. In response to these favourable results, the company announced, on September 13, 2007, that it had applied for and received 4 new licenses to drill gas wells and had already commenced its further drill program. Four wells have come on-steam in 2008. Echo 48 is a small well, producing at 8 to 10 Mcfd. Echo 61 is an excellent well, producing at 140 to 160 Mcfd with the casing pressure initially held back to 392 psi, or about a 35 to 40% drawdown. Echo 59 just commenced producing and has not yet demonstrated production characteristics. Echo 60, as a new well, is producing 100 to 120 Mcfd at 270 to 290 psi flowing casing pressure and is significantly above the average flow rate for Echo wells. The Company requires proceeds from private placements of share capital and other sources of financing to fund its capital program, including expenditures to maintain capacity, meet planned growth and fund development activities, in addition to cash flow from deliveries of gas.

During 2008, the Company may be required to fund a capital program, as recommended by its independent engineer, to commence production on five non-producing wells and to drill additional wells at a cost of up to \$5,240,000. On April 18, 2008, the Court ordered the Company to carry on business in the normal course and to not incur new financial obligations until the disposition of a Court application by the Company. This temporary restriction on capital arises from a court application in which the Company has alleged that certain shareholders have breached the Securities Act, among other things. The application is expected to be resolved in the fourth quarter. The Company does not expect to pay dividends during 2008.

As at February 27, 2008, the Company's independent engineer reported reserves as follows:

Reserves Category	Gross Gas Reserves (BCF)	Net Gas Reserves (BCF)
Proved developed and undeveloped	13.87	13.00
Additional probable	23.44	22.26
Proved plus probable	37.31	35.26

The estimate of Gross Gas Reserves associated with Proved Developed Producing wells increased 11.1% to 5.31 Bcf for December 31, 2007 compared to 4.78 Bcf as at December 31, 2006. The overall reduction in

Proved, Probable, and Proved plus Probable reserves as of December 31, 2007 compared to December 31, 2006 reflected a change in estimating methodology used. The methodology in the December 31, 2007 report was based primarily on exponential decline curve-based forecasting for the Proved assignments and hyperbolic decline curve-based forecasting for the Proved plus Probable assignments. In past year reserve reports, the production forecasts and associated remaining recoverable reserves were calculated based on estimates of Gas-in-Place and recovery factors due to lack of predictable production declines. With most wells on-stream for 2.5 to 3 years and demonstrating predictable declines, the move from volumetric based to decline based reserves estimating and forecasting was appropriate and reflected standard industry estimating practices.

[b] Gas Gathering System

The gathering pipeline and compressor system consists of three sales points for gas produced from the Company's properties: sales through the Talisman Energy operated Lakeview Compressor, sales through the Union Gas system near the village of Mabees Corners, and sales through the Union Gas system just east of the city of Tillsonburg.

Gas deliveries through the Talisman Lakeview compressor station and the Tillsonburg station have been stored using the Union Gas storage system in southwestern Ontario. Gas is sold directly to Union Gas through the Mabees station. The storage purchased by the Company allows for storage of gas on an ongoing basis, with restrictions on maximum storage volumes and the rates at which gas can be put in or removed from the storage account.

[c] Investment in Echo Power Generation Inc. ("EPG")

As at September 30, 2008, the company held 13,000,000 common shares of Echo Power Generation Inc. ("EPG"). EPG continued to record losses and requires additional funding to support future operations. The Company reflected a write-down of its 37.78% interest in EPG on December 31, 2006 to record the investment at \$nil and continues to account for the investment on the cost basis.

[d] Investment in Ontex Resources Limited ("Ontex")

On March 16, 2006, the Company acquired 4,509,833 common shares of Ontex Resources Limited ("Ontex") at a price of \$0.18 per share pursuant to a debt to shares conversion agreement under which Ontex settled an \$811,770 debt owed to the Company. The debt comprised a number of cash advances made by the Company to Ontex. In October 2006, the Company participated in a rights offering to acquire a further 1,127,458 shares at a price of \$0.10 per share for \$112,746 to maintain its proportionate interest. In December 2006, the Company sold 1,647,058 shares at a price of \$0.17 per share for \$280,000 resulting in a gain of \$9,882. In January 2007, the Company sold an additional 620,000 shares at a price of \$0.17 per share for \$105,400 resulting in a gain of \$9,384. In August 2007, the Company sold 905,000 shares at a price of \$0.20 per share for \$181,000 resulting in a gain of \$40,847. As a result, the Company holds 2,465,233 shares representing a 2.70% interest in Ontex.

Until September 30, 2008, Ontex had two common directors with the Company, one of whom is Chief Executive Officer, a common Chief Financial Officer and owns 11.69% of the Company's outstanding shares at September 30, 2008 [2007 - 13.3%]. Advances payable in the amount of \$12,443 (2007 - \$85,072) arising from royalty obligations and expenses paid on the Company's behalf are non-interest bearing and payable on demand.

Summarized information of the financial position and results of operations of Ontex are as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Assets	15,540,853	14,829,010
Liabilities	410,194	85,185
Shareholders' equity	15,130,659	14,743,825
Liabilities and shareholders' equity	15,540,853	14,829,010

	September 30, 2008	September 30, 2007
	\$	\$
Revenue	119,831	161,842
Expenses	(1,906,803)	(520,499)
Equity in earnings (loss) of Echo Energy Canada Inc.	(56,307)	(11,379)
Loss for the year	(1,843,279)	(370,036)
Other comprehensive income (loss)	(1,517)	(60,737)
Comprehensive loss for the year	(1,844,796)	(430,773)

For more detailed information, please refer to Ontex's public filings.

Transactions with Related Parties

All related party transactions have been recorded at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

- [a] The Company's President and Treasurer is a director and is also Chairman and CEO of Ontex. During the nine month period ended September 30, 2008, the Company paid a company influenced by the President and Treasurer \$225,292 [2007 - \$150,136] in management and consulting fees. \$60,142 of the amount paid in 2008 related to a retroactive adjustment for the years 2001 to 2006.
- [b] The Company's Chairman, under temporary suspension, is a director. During the nine month period ended September 30, 2008, the Company paid a company influenced by the Chairman \$158,122 [2007 - \$150,136] in management and consulting fees.
- [c] During the nine month period ended September 30, 2008, the Company paid \$86,120 [2007 - \$84,975] in respect of financial services provided by the former Chief Financial Officer of the Company.
- [d] The Company's Vice-President is a director of the Company. During the nine month period ended September 30, 2008, the Company paid the Vice-President \$nil [2007 - \$106,863] in respect of management and consulting services.
- [e] During the nine month period ended September 30, 2008, the Company paid \$2,158 [2007 - \$3,171] in respect of field services and expenses to a company influenced by a director of the Company.
- [f] During the nine month period ended September 30, 2008, the Company paid \$402,244 to a company influenced by a director for construction of gas gathering pipelines.

The Company has ongoing contractual obligations under management consulting agreements as discussed in Note 13.

During the nine month period ended September 30, 2008, the Company received net advances from Ontex Resources Limited (“Ontex”) on account of royalty obligations and expenses paid on the Company’s behalf in the amount of \$43,100 and paid \$115,728 on account of net advances for similar items owing as at December 31, 2007 or advanced subsequently.

On March 16, 2006, the Company acquired 4,509,833 common shares of Ontex at a price of \$0.18 per share pursuant to a debt to shares conversion agreement under which Ontex settled a \$811,770 debt owed to the Company as discussed in Note 6. In October 2006, the Company acquired a further 1,127,458 shares at a price of \$0.10 per share and, in December 2006, sold 1,647,058 shares at a price of \$0.17 per share. In January 2007, the Company sold an additional 620,000 shares at a price of \$0.17 and, in August 2007, sold 905,000 shares at a price of \$0.20. All of the sales were made to arm’s length purchasers. Ontex has two common directors with the Company and, as a result of the above transactions, owns 2.74% of the Company’s outstanding shares at June 30, 2008.

In March 2008, the company completed a private placement which included the issuance of 5,000,000 common shares and 857,143 flow-through common shares to the Chairman of the Company

Critical Accounting Estimates

The Company makes accounting estimates in its financial statements in order to provide timely information to users. A critical accounting estimate is one that requires management to make assumptions about matters that are highly uncertain at the time the estimate is made and, if a different estimate was used, financial results would be materially different.

The Company must estimate its natural gas reserves and that estimate is considered critical. Reserves are evaluated and reported on from time to time by an independent consulting engineer who uses various subjective factors and assumptions, including forecasts of costs based on geological and engineering data, projected future rates of production, and timing and amounts of future development costs. Although reserves are estimated, management believes the estimates are reasonable based on information available at the time the estimates were prepared. Management and the Reserve Committee of the Board of Directors review the estimates reported by the independent consulting engineer.

As new information becomes available, changes are made to reserve estimates and future development cost estimates. Historically, the Company has had no significant changes to these estimates, with the exception of adjusting reserves for the results of new drilling. Future actual results could vary greatly from the estimates made, resulting in material changes to the depletion calculation and the asset impairment test.

The estimated asset retirement obligation is also considered critical. The amount recorded for the asset retirement obligation is based on estimated timing and costs to abandon and restore properties. Actual requirements could vary greatly from the estimates made, resulting in material changes to the obligations.

Significant Accounting Policies

[a] Oil and gas leases

The Company follows the full cost method of accounting for natural gas leases, whereby all costs associated with the acquisition of, exploration for and development of gas reserves are capitalized. Costs capitalized include lease acquisition costs, geological and geophysical expenditures, drilling of productive and non-productive wells and related plan and production equipment costs. General and administrative expenses are not capitalized other than to the extent of the Company’s interest in Company operated capital expenditure programs to which operation’s fees have been charged in accordance with standard industry operating agreements. While in the development stage, revenues derived from the sale of gas were presented as a reduction of capitalized cost. Proceeds from the sale of gas properties would reduce capitalized costs with recognition of a gain or loss if such a sale would significantly alter the rate of depletion and depreciation.

During the operational stage, capitalized costs plus estimated future development costs of proven reserves are depleted and depreciated using the unit-of-production method based upon estimated proven developed and undeveloped gas reserves before royalties as determined by independent consulting engineers.

In applying the full cost method, the Company performs an impairment test, which restricts the net capitalized costs from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves based on current prices and costs, after deducting estimated future general and administrative expenses, financing costs, income taxes and site restoration costs.

[b] Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant areas requiring the use of management estimates relate to the amounts recorded for depletion and depreciation of the natural gas properties, the determination of impairment of oil and gas property costs, the accretion of asset retirement obligations, and the balances of asset retirement obligations which are based on estimates of reserves and future costs. By their nature, these estimates, and those related to future fund flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Changes in Accounting Policies

Effective January 1, 2007, the Company adopted a series of new standards released by the Canadian Institute of Chartered Accountants, which establish guidance for the recognition and measurement of financial instruments. Section 1530 “Comprehensive Income”, Section 3855 “Financial Instruments – Recognition and Measurements”, and Section 3865 “Hedges” were released in April 2005 and are effective for interim and annual financial statement years beginning on or after October 1, 2006. To accommodate these new sections, there have been a number of amendments to other existing accounting standards.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions, events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 requires financial instruments be classified into one of the following categories: held-to-maturity, held for trading, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. The adoption of this section did not require any transitional adjustments to opening accumulated other comprehensive income.

Upon adoption of these new standards, the Company designated its cash and short-term investments as held-for-trading. Accounts receivable has been classified as loans and receivables. Accounts payable and accrued liabilities have been classified as other financial liabilities.

Section 3861 establishes standards for presentation of financial instruments and identifies the information required for disclosure in the company’s financial statements. The adoption of the new recommendations did not impact the consolidated financial statements.

Section 3865 specifies the criteria under which hedge accounting can be used and establishes the required disclosures. The Company is not currently engaged in any hedging activity. As a result, the adoption of section 3865 did not have any impact on the Company’s consolidated financial statements.

Effective January 1, 2008 the Company adopted the following new CICA accounting standards: Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; Section 3031, Inventories; and Section 1535, Capital Disclosures.

CICA Section 3862, Financial Instruments - Disclosures, establishes standards for the disclosure of financial instruments including disclosing the significance of financial instruments and the nature and extent of risks arising from financial instruments.

The adoption of CICA Section 3863 had no impact on the Company's presentation since the new standard carries forward the existing presentation requirements.

Effective January 1, 2008, the Company adopted retrospectively the new CICA recommendations relating to Inventories (section 3031). The new standard provides additional guidance concerning measurement, classification and disclosure and allows the reversal of write-downs to net realizable value when there is a change in the circumstances giving rise to the impairment. On adopting these recommendations, the Company reclassified expenses to disclose the net change in inventory recognized as an expense during the period with comparative figures reclassified accordingly. The change had no impact on the Company's prior period inventory or retained earnings balances.

CICA Section 1535, Capital Disclosures, establishes standards for disclosing aspects of the entity's capital management strategy. This standard requires disclosure of both quantitative and qualitative disclosures around the entity's objectives, policies and processes for managing capital. Disclosure of any externally imposed capital requirements is required when applicable along with information regarding the consequences of non-compliance with such restrictions.

The adoption of these new standards had no impact on the Company's financial position or results of operations.

Outstanding Share Data

As at the date hereof, the Company had 60,208,086 common shares outstanding.

Risks and Uncertainties

[a] Operations

The Company's operations are subject to all of the risks normally incidental to the operation and development of natural gas properties and the drilling of natural gas wells, including encountering unexpected formations or pressures, blow-outs, premature decline of reservoirs, invasion of water into producing formations, craterings and fires and explosions, all of which could result in personal injuries, loss of life and damage to property of the Company and others. The Company conducts its activities in accordance with customary industry practice and, in accordance with such practice, will not be fully insured against all such risks, nor are all such risks insurable and, as a result, liability arising from these risks could have a material adverse effect upon its financial condition. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons.

The marketability of natural gas acquired or discovered will be affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of natural gas pipelines and processing equipment and government regulation. Natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government which may be amended from time to time. Natural gas operations are affected in varying degrees by government regulation such as restrictions on production, price controls, tax increases, expropriation of property, environmental and pollution controls or changes in conditions under which natural gas may be marketed. The Company's natural gas operations

may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

The Company may experience growth through acquisitions. Its continued profitability and growth will depend in part upon its ability to successfully integrate its acquired assets with its existing business. There is no assurance that the Company will be able to successfully assimilate its acquisitions and its failure to do so could have a material adverse affect on its business, operating results and prospects.

Although satisfactory title reviews are conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of the Company to certain properties. In addition, the success of the Company will be largely dependent upon the performance of its key officers and employees and consultants.

[b] Natural Gas Prices

The Company's results of operations and financial condition are dependent on the prices received for its natural gas production. Natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other natural gas producing regions, which are beyond the control of the Company. Any decline in natural gas prices could have a material adverse effect on the Company's operations, financial condition, natural gas reserves and the level of expenditures of the development of its natural gas reserves. The Company may manage the risk associated with changes in commodity prices and foreign exchange rates from time to time, by entering into natural gas price hedges and forward foreign exchange contracts. To the extent that the Company engages in risk management activities related to commodity prices and foreign exchange rates, it will be subject to credit risks associated with counterparties with which it contracts. The Company has not engaged in such activities during the current or prior periods.

[c] Delay in Cash Payments

In addition to the usual delays in payment by purchasers of and natural gas to the operators of the properties, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

[d] Reserve Estimates

The reserve and recovery information contained in reserve estimations on the Company's properties, as evaluated by an independent engineer, are only estimates and no assurance can be given that the indicated levels of reserves will be produced. Probable Reserves estimated for properties may require revision based on the actual development strategies employed to prove such reserves.

[e] Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or its properties. Such legislation may be changed to impose higher standards and potentially more costly obligations on the Company. There can be no assurance that the Company will be able to satisfy its actual future environmental and reclamation obligations.

[f] Key Personnel Factors

The Company is highly dependent on the services of members of senior management. The loss of the services of any of these individuals may adversely affect the Company's leadership and direction, which may impact its business, financial condition and results of operation.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures provide reasonable assurance that material information related to the Company is made known to management.

It should be noted that, while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting for the Company and have designed such controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

It should be noted that, while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the Company's internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.